
OF ENGLAND
1000
Banknote
HUNDERT
DEUTSCHE MARK
POUNDS
GY033085G
日本銀行券
千円

THE IMPORTANCE OF TRADE PROMOTION AUTHORITY TO SMALL BUSINESS

by Grant D. Aldonas,

Under Secretary for International Trade

More than 25 million small businesses in America employ over half of the country's private workforce, create three of every four new jobs and account for most of American innovation. Small and medium-sized firms are among the many benefactors of liberalized markets, contrary to critics who assert that trade only benefits larger corporations. Additionally, these smaller companies engaged in international trade are more stable, achieve higher growth rates and provide jobs paying higher than average wages than firms not engaged in trade.

Over the last decade, while the United States was negotiating and implementing the North American Free Trade Agreement (NAFTA) and the Uruguay Round, the U.S. economy achieved the highest rate of sustained economic growth we have seen in a generation while inflation and unemployment fell to their lowest sustained levels since the 1960's.

Between 1987 and 1999, America's manufacturing sector maintained its share of GDP, holding steady at slightly over 17 percent. But between 1992 and 2000, while NAFTA and the Uruguay Round were opening new markets for our exporters, the overall economy grew by 34 percent and manufacturing output outpaced that growth, increasing by 54 percent. Productivity in manufacturing has grown at an average rate of 4.1 percent during the current business cycle and it accelerated to a 5.2 percent pace in 1996-2000. And growth in productivity is the key to growth in real wages.

But did trade hurt the American worker during the last decade? Let's look at the facts. The U.S. economy created more than 20 million new jobs since the early 1990s. Since 1995, total U.S. private sector productivity has increased 2.5 percent a year and real wages are up. Exports supported some 12 million U.S. jobs this past year. Workers in jobs supported by these exports receive wages 13 to 18 percent higher than the national average. The facts speak for themselves.

Nearly 97 percent of U.S. merchandise exporters are small and medium-sized companies. Their exports accounted for $161.7 billion in 1998, or 29 percent of the total dollar value of our exports that we can trace back to specific companies. Companies with fewer than 20 employees made up more than two-thirds of all U.S. exporting firms in 1999.

Please bear in mind that these figures count only firms that export goods directly and do not include suppliers whose inputs are exported in final products or services. While we do not have an exact count of such "indirect exporters," companies like CaseNewHolland, Inc. and Boeing have reported that their suppliers number in the hundreds. For example, one Case IH MX Magnum tractor has nearly 200 companies in 27 states, representing about 75,000 other jobs, all providing parts for a tractor that is exported from the CaseNewHolland plant in Racine, Wisconsin.

This evidence suggests that the critics are incorrect: liberalized trade is a boon to the small U.S. manufacturers, which benefit from a greater supply of inputs at lower prices, enabling them to remain globally competitive. More importantly, lowering trade barriers abroad helps small business exporters more than large companies in one fundamental way: large companies benefit from economies of scale and have the resources either to export or to invest abroad on the other side of trade barriers erected by foreign governments; small businesses generally only have one option — to export. What that means in practical terms is that the more we lower trade barriers abroad, the more we benefit small businesses relative to their larger competitors for foreign markets.

A recent study by Robert Stern at the Gerald R. Ford School of Public Policy at the University of Michigan underscores that point. Professor Stern estimates that a one-third reduction in global barriers to trade in agriculture, services and manufacturing would boost the size of the world economy by $613 billion, the equivalent of an economy the size of Canada. Eliminating all global trade barriers would add $1.9 trillion to the global economy, the equivalent of adding two Chinas. Those are markets that would be open to our small businesses. And our small businesses are ready to take advantage of the markets we open for them.

Trade liberalization would help the small and medium-sized businesses achieve greater market access in international markets. Given that a percent of all small business exporters posted sales to only one foreign market in 1999, this would be a welcome change. Currently, Canada and Mexico account for more than one-third of total exports from small businesses. This is due to both proximity and to the benefits brought about by NAFTA. New free trade agreements would streamline and facilitate the export process, enabling small businesses to take full advantage of new markets and opportunities.

Let me give you a few examples of how our small exporters have taken advantage of NAFTA.

- Die Tech Industries of Providence, Rhode Island, has increased its exports of die casting machinery to Mexico dramatically as a result of NAFTA. The company touts improved customs procedures under the NAFTA and increased competitiveness vis-a-vis its competitors in Mexico as the reason for their success.

- Enviro Marine of Greenville, South Carolina, is a small manufacturer of absorbent and bio-remediation devices used to prevent pollution. As a result of NAFTA, the company has successfully entered the Canadian market and has located a distributor in two cities. The company also plans to further increase its exports to Canada and other world markets. But before doing so, Enviro Marine — like many other companies — first determines the success of the bilateral trade relationship and the existence of trade agreements.

- Sioux Steam Cleaner Corporation of Beresford, South Dakota, exports industrial cleaning equipment duty-free to Canada and Mexico as a result of NAFTA. In 1999, the company expanded its operations by adding six new distributing locations in Canada and its first distributor in Mexico. In addition, as a result of NAFTA, three of Sioux Steam's U.S. distributors have been able to break into the Mexican market for the first time. Sioux Steam's management feels strongly that the elimination of duties under NAFTA has given the company an advantage over its competitors.

It is not just manufacturing industries that benefit from trade, but services as well. Small firms comprise most of the U.S. service sector and I'd like to point out that global services trade was valued at $1.4 trillion in 1999. We estimate that some $293 billion in U.S. services exports supported several million jobs in 2000, up significantly from 1992 when service exports totalled $177 billion. We have only taken the first steps in services trade liberalization – the General Agreement on Trade in Services, or GATS, was the very first attempt to open the global services market. Services are subject to laws, regulations and other measures that can impede international transactions, so small business services providers will achieve significant benefits from clear, enforceable international services rules. This points to why we needs a renewal of the Trade Promotion Authority.

It is often stated that we do not need Trade Promotion Authority until an agreement is concluded and Congress has voted on its implementation. What that argument ignores is the fundamental role that Congress was intended to play in setting our trade policies under the Constitution.

REAL PEOPLE, REAL TRADE

MIDWESTERN MANUFACTURING COMPANY, INC. (WWW.SIDEBOOMS.COM)

Midwestern Manufacturing Company, Inc. was founded over 50 years ago. They are a leading manufacturer of hydraulically-operated sidebooms for the pipeline construction and railroad derailment industries. During its long and successful operation, Midwestern has manufactured over 40 percent of the total number of sidebooms that are in operation throughout the world.

Since 1997, Midwestern has been successful in many countries, e.g. Brazil, Ecuador, China, Dubai, Canada, France, Mexico, and Indonesia. They are currently involved in discussion for additional distribution in South America and the Caspian Sea area. In 1997, their export sales were about 39 percent of total sales. In 1998, export sales were 85 percent of total sales; and, in 1998, export sales were up 118 percent over 1997.

In fact, what Trade Promotion Authority really provides is a vehicle to ensure that the Congress and the President have agreed on our objectives and on how they will work together to achieve them. President Bush recently observed that, "Free trade agreements are being negotiated all over the world and we're not party to them." There are more than 130 preferential trade agreements in the world today. The United States belongs to only two. The President's point is that we have to get off the sidelines and back into the game and Trade Promotion Authority is essential to that effort.

That explains the "what" of Trade Promotion Authority, but it does not explain the "why." The "why" is that our inaction hurts American small businesses and the workers they employ as they find their goods and services shut out of markets by the many preferential trade and investment agreements negotiated by our trading partners. When the President laid out his international trade legislative agenda in May, he identified the specific trade negotiating objectives he intends to pursue in order to advance America's interests.

First, the President intends to eliminate tariffs and other barriers that impede U.S. exports of goods, services, investment and ideas. We seek to ensure, through bilateral, regional and multilateral negotiations, that other countries' markets are as free and open as our own. In fact, we need to continue work to re-establish the situation that prevailed in world trade at the end of World War I, when three out of every four dollars of goods entering the United States arrived duty free. In the trade-restrictive decades thereafter, free trade declined to the point that, by the early 1970s, only about one out of every three dollars of U.S. imports arrived duty free.

The President also intends to focus on dismantling barriers to exports of U.S. services, which make up the largest sector of the U.S. economy and, as I mentioned earlier, small firms comprise most of the U.S. service sector. We will pursue this agenda in the new round of negotiations in the WTO.

EXPORT PROMOTION SERVICES

- Trade Information Center (TIC), for counseling via phone on 1-800-USA-TRAD(E) hotline.
- The U.S. Commercial Service provides one-on-one assistance and export counseling to identify best markets and potential buyers or business partners, arrange overseas meetings and obtain customized market analysis via its worldwide network of officers posted in 160 locations in 85 countries. Additionally, there are 105 U.S. Export Assistance Centers (USEACs) throughout the nation. (See back cover for listing)
- The Trade Compliance Center (TCC), helps U.S. exporters facing tradebarriers and ensures that foreign countries comply with their trade commitments.

These resources and others are available through Export.gov, a single, customer-focused website designed to help U.S. exporters quickly assess their needs and find all U.S. Government export-related information online.

The third element of our strategy is to support export promotion activities to "fill in" behind our negotiations. For our economy to fully benefit from new market openings, we need to expand the base of exporters — and that means increasing the number of small businesses that export.

That, in fact, is the element that has been missing in our trade promotion efforts to date. Small businesses, in particular, need to get information, expertise, support and financing to do the deals. This requires the coordinated effort of all of the federal agencies involved in export promotion. ITA's array of programs and services, ranging from information to hands-on assistance, help SMEs through every stage of the export process. (see box)

In addition, the President intends to preserve our ability to combat unfair trade practices. That means vigorously enforcing our trade laws, not as an end in itself, but as a means of pursuing the elimination of the unfair trade practices that limit economic opportunity. It also means ensuring that U.S. rights under trade agreements are secure so that our farmers, workers, businesses and consumers get the benefit of the bargain that our negotiators reach at the table. In discussing a potential new round with our trading partners, we have made abundantly clear that we oppose any weakening of WTO trade remedy rules.

I believe we also need to work to reduce or eliminate barriers in overseas markets to U.S. foreign investment. Foreign direct investment has a positive impact in promoting U.S. exports and our investment regime is already among the most open in the world. The benefits of an open investment regime are truly win-win.

We must make the needs of small business a priority as we draft our negotiating objectives. While small businesses benefit significantly from the lowering of tariff barriers and other restraints, they also have the strongest interest in the elimination of the red tape that often hinders our exports. That's why small manufacturers are interested in achieving additional progress on the harmonization of standards and burdensome customs procedures. We and most other WTO members seek negotiations in trade facilitation — which helps to resolve customs procedures and related transparency issues — to benefit small business. ■